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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 005849

SIPDIS

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TAGS: [EFIN](#) [PGOV](#) [EAID](#) [PREL](#) [JO](#)

SUBJECT: JORDAN'S AUSTERITY PLANS KEEP GROWING DEFICIT IN CHECK

REF: A. AMMAN 5725

[1](#)B. AMMAN 5451

[1](#)C. AMMAN 5311

Classified By: CHARGE D'AFFAIRES DAVID HALE FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) SUMMARY: The GOJ strategy for getting through the present fiscal crisis (Refs A, B) consists of austerity measures (most importantly a 20 percent cut in Ministries' operational spending), revenue enhancement through accelerated privatization and tax reform, an end to costly fuel and other subsidies, steps to reinforce the social safety net (such as a minimum wage increase), and public gestures aimed at demonstrating that the governing class is sharing in society's pain (including the elimination of the German luxury sedans once favored by senior officials here).  
END SUMMARY.

The Numbers as they Add Up  
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[1](#)2. (C) Ministry of Finance (MOF) Secretary General Hamed Kasasbeh recently reviewed with Emboffs a "very preliminary" draft of the revised budget that the Finance Ministry will present to the cabinet. The figures show a fiscal picture that is bleak even under the most favorable assumptions; the GOJ budget deficit will be in the range of USD 952 million, which is about 7 percent of the USD 11 billion GDP.

First, The Good News - Revenues Up, Costs Trimmed  
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[1](#)3. (C) Building on the momentum of increased revenue collections that began in FY 2004, the MOF now projects that the revenue side of the ledger in FY 2005 could be as high as JD 2.3 billion, representing a JD 300 million increase over the official budget that passed parliament last December. The Finance Ministry has also estimated the net effect of oil price increases as adding JD 114 million to the budget. A final item on the plus side of the column is the JD 35 million savings in government spending. Total savings are thus JD 449 million.

[1](#)4. (C) While the government has been reluctant to release details of where this JD 35 million in budget cuts would come from, Kasasbeh shared an internal list with us. Subsidies to independent agencies would be reduced by JD 11.5 million (many collect fees to sustain their operations or are part of larger operations, such as research institutes within universities, he said). The government will seek across-the-board cuts in operational costs of JD 12.7 million. Kasasbeh saw JD 4.2 million coming from reduced use of vehicles. For example, the Finance Minister gave up his BMW to the Prime Ministry for sale, he related, and took the SecGen's smaller car; the SecGen, in turn, was using a small pool car. The Royal Palace is replacing its BMWs with Toyotas -- we witnessed the startling scene of a security chase car bristling with guns following a Toyota compact struggling up a hill, with the once-powerful Palace advisor Saad Khayr inside. Other savings included JD 2.3 million from furniture, JD 1.6 million from phone use, JD 0.4 million from travel, and about JD 2 million in miscellaneous expenses.

The Bad News -- The Deficit Hits  
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[1](#)5. (C) The Finance Ministry is now revising the negative side of the ledger with the price of crude assumed to be \$55 per barrel (versus the original budget estimate of \$42/barrel). Calculated over the last six months of the year, this alone adds JD 300 million to the deficit. Together with the loss of JD 527 million in foreign grant assistance projected in the original budget, and JD 27 million in salary increases for the lowest paid government workers, a total of JD 854 million is being newly tallied in the negative column.

[1](#)6. (C) With JD 854 million in additional costs (para 5), and JD 449 million in savings (para 3), the net effect on the GOJ budget is the sum of JD 405 million being added to the originally projected deficit of JD 270 million, leading to the overall deficit of JD 675 million (\$952 million).

17. (C) Salary increases for the lower grades of government employees are proposed to go into effect on August 1. In addition, MOF analysts said that the semi-independent National Aid Fund (NAF) has been instructed to increase the pass-through of its JD 18 million annual budget by as much as 50 percent in the second half of the year, so that more money reaches NAF beneficiaries. (COMMENT: That this is considered possible is indicative of the deadwood present in some government bureaucracies.) Finally, the proposal to raise the minimum monthly wage from 85 to 95 JD is working its way through the government. Some investors are already complaining bitterly about the minimum wage hike, especially low-end garment manufacturers worried about the new Egyptian QIZs with their cheap labor and increased world competition in the post-quotas era. However, manufacturers of high-end garments have indicated they understand that the new minimum wage is the price of doing business with a reliable workforce. The most consistent concern raised by QIZ factory owners has been the immediate effect on their operating costs, due to higher priced transportation and what they say are unexplained inflationary trends.

Comment - A Range for the Deficit

18. (C) Planning Minister Suhair al-Ali has been citing a figure of \$950 million for the deficit, and other ministers have been pegging the deficit at about 7 percent of GDP. (Official estimates for the GDP were JD 8.24 billion (\$11.6 billion) when the budget passed, though this will now rise given that growth so far this year has exceeded seven percent.) We reckon these stated deficit figures are about right and show just how much the government will have to do to continue to tighten its belt in the next few years, even as it pursues an aggressive reform agenda.

19. (C) If oil prices were to stay at \$60/barrel for the second half of 2005, an additional JD 65 million would be added to the deficit, the MOF analysts said. Given this uncertainty and the fact that "actual" budgets at the end of the fiscal year do not match the amounts agreed to some 13 months earlier, post estimates that a range of plus-or-minus JD 75 million for the oil deficit should cover all of the eventualities, all other considerations being equal. Thus, a GOJ budget deficit for FY 2005 in the range of \$800 million to \$1 billion should be anticipated (not outside the range for developing countries in transition, but still an unwanted condition, as the IMF noted - Ref C). The government's plan to eliminate oil subsidies over the following two fiscal years (Refs A, B) will substantially address a major portion of this deficit. Combined with strong export-led growth and current levels of investment, Jordan's strategy to overcome its current fiscal woes puts it on track to return to a more evenly balanced budget.

HALE